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## Appropriations Committee

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### HB 2690

**Brief Description:** Permitting members of the public employees' retirement system, the teachers' retirement system, the school employees' retirement system, the public safety employees' retirement system, plan 1 of the law enforcement officers' and fire fighters' retirement system, and the Washington state patrol retirement system to make a one-time purchase of additional service credit.

**Sponsors:** Representatives Crouse, Conway, Lovick, Hunt, Green, Sells, Quall, Simpson, Moeller and Morrell; by request of Select Committee on Pension Policy.

#### Brief Summary of Bill

- Permits members of the Teachers', School Employees', and Public Employees' Plans 1, 2 and 3, the Public Safety Employees' Retirement System Plan 2, the Law Enforcement Officers' and Fire Fighters' Plan 1, and the Washington State Patrol Retirement System to purchase up to five years of service credit.
- Allows the service credit to be purchased at time of retirement at full actuarial cost.
- Allows a member purchasing service to pay for all or part of the cost with a transfer from an eligible retirement account.

**Hearing Date:** 1/18/06

**Staff:** David Pringle (786-7310).

#### Background:

A vested member of the Teachers' Retirement System Plans 2 or 3 (TRS 2/3) may retire with an unreduced defined benefit at age 65. At retirement in Plan 2 a member receives 2 percent of the member's final average salary for each year of credited service. In Plan 3, a member receives 1 percent of the member's final average salary for each year of credited service and may withdraw his or her accumulated member contributions and earnings.

Beginning at age 55, a member of TRS 2 may apply for early retirement after 20 years of credited service. Beginning at age 55, a member of TRS 3 may apply for early retirement after 10 years of credited service. If a member in TRS 2/3 applies for early retirement with fewer than 30 years of service, his or her benefit is actuarially reduced for the difference between the member's age difference at retirement and age 65. This actuarial reduction

typically averages about 8 percent per year. A member who applies for early retirement with 30 or more years of service has his or her benefit reduced instead by 3 percent per year.

Members of the TRS generally have the opportunity to participate in deferred compensation plans. These plans permit an individual to place a portion of salary into a special account prior to being subject to payroll tax reductions. The Department of Retirement Systems (DRS) operates a deferred compensation program consistent with the federal tax requirements of 26 United States Code section 457, commonly called a "457 Plan", in which employees of the state, counties, municipalities, and other political subdivisions may participate. Some school districts and local governments may also participate in other deferred compensation-type plans commonly referred to as "403(b)" or "401(k)" plans. Individuals may also be able to deposit funds into accounts with preferential tax treatment such as Individual Retirement Accounts (IRAs).

In recent years, changes in federal law have liberalized the rules on the transfer of funds between tax-deferred accounts, including government defined benefit pension plans like the TRS 2/3, and deferred compensation accounts such as 457, 403(b), and 401(k) plans. Many state and local government pension plans have subsequently provided the opportunity for members to transfer funds, including funds from tax-deferred accounts, into these plans to add up to five years of service credit to a member's defined benefit.

The 2004 Legislature enacted House Bill 2535, which provided the opportunity for members of the Public Employees' Retirement System and the School Employees' Retirement Systems Plans 2 and 3 to purchase up to five years of additional service credit at the time of early retirement. The cost of the additional service credit is the actuarially equivalent value of the resulting increase in the members' benefit. The 2005 Legislature enacted House Bill 1327 provided the same opportunity to members of the Teachers' Retirement System Plans 2 and 3.

#### **Summary of Bill:**

Members of the Teachers', School Employees', and Public Employees' Plans 2 and 3, the Public Safety Employees' Retirement System Plan 2, the Law Enforcement Officers' and Fire Fighters' Plan 1, and the Washington State Patrol Retirement System may purchase up to five years of service credit at time of normal or early retirement. The service credit purchased is not regular membership service, and may not be used for purposes such as qualifying for improved early retirement benefits, such as the 3 percent per year reduction available to members of the PERS, TRS, and SERS Plans 2 and 3 with 30 years of service.

The cost of the additional service credit is the actuarial equivalent value of the resulting increase in the member's benefit. The member may pay all or part of the cost of the additional service with an eligible transfer from a qualified retirement plan. The DRS must adopt rules to ensure that all purchases and transfers comply with the requirements of the federal Internal Revenue Code and regulations.

The laws permitting the purchase of service credit only upon early retirement in PERS, TRS, and SERS Plans 2 and 3 are repealed.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect on July 1, 2006.